



FINANCIAL STATEMENTS

**For The Year Ended
November 30, 2008**



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INDEPENDENT AUDITORS' REPORT

February 10, 2009

To the Board of Trustees
Ypsilanti District Library
Ypsilanti, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***YPSILANTI DISTRICT LIBRARY***, as of and for the year ended November 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ypsilanti District Library, as of November 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ypsilanti District Library's basic financial statements. The General Fund Schedule of Operating Expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis For the year ending November 30, 2008

The discussion and analysis of Ypsilanti District Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended November 30, 2008. Please read it in conjunction with the Library's financial statements.

Using this annual report

The funds are presented on the modified accrual basis of accounting, which is a short-term view that focuses on how taxpayer's resources are spent during the current period and the amounts of those resources available for future spending. The modified accrual based financial statements provide detailed information about the Library's current financial resources and demonstrates compliance with various state laws and shows the stewardship of the Library's annual property tax and other revenue.

The modified accrual based statements are converted to full accrual accounting based statements by incorporating long-lived resources and long-term obligations into the reporting model. Full accrual statements focus on full costing of current services and on the total resource picture of the Library.

Condensed Financial Information

The following table shows key financial information in a condensed format:

<u>Statement of Net Assets</u>	November 30	
	<u>2008</u>	<u>2007</u>
Assets		
Cash and investments	\$ 5,099,097	\$ 4,984,545
Capital assets	17,889,254	18,238,954
Other assets	327,420	339,672
Total assets	23,318,771	23,563,171
Liabilities		
Long-term liabilities	11,585,134	12,407,058
Other liabilities	119,027	182,312
Total Liabilities	11,704,161	12,589,370
Net Assets		
Invested in capital assets – Net of debt	6,459,377	5,958,558
Restricted for debt service payments	1,534,596	1,531,308
Restricted for other purpose	6,394	8,120
Unrestricted	3,614,243	3,475,815
Total net assets	\$ 11,614,610	\$ 10,973,801

<u>Statement of Activities</u>	November 30	
	<u>2008</u>	<u>2007</u>
Revenue		
Property taxes	\$ 5,172,371	\$ 6,332,204
Other	528,192	647,706
Total Revenue	5,700,563	6,979,910
Expenses	5,059,754	4,647,045
Change in Net Assets	\$ 640,809	\$ 2,332,865

Full Accrual Analysis

The full accrual statement of activities shows an increase in net assets of \$640,809. The General Fund acquired \$868,818 in new capital assets while depreciation charges were \$1,145,315.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total \$3,614,243. Unrestricted net assets increased during the year by \$138,428.

Modified Accrual Analysis

The General Fund pays for all of the Library's services. The most significant costs are for personnel and related staffing expenses of \$ 2,524,941, which accounted for 60 percent of the total operating expenditures in the year ended November 30, 2008. Library acquisition cost for materials and programs was \$ 610,584, or 14 percent of total operating expenditures. The remaining categories include: contractual services of \$160,617 (4 percent), automation and capital outlay of \$423,060 (10 percent), and other, which includes supplies, tax rebates, and other expenditures, \$520,930 (12%). The general fund had a net change in fund balance for the year of \$67,987 before a transfer out to another fund of \$900,000. This \$900,000 transfer out of the general fund resources was set aside to be used in replacement of capital assets.

The debt service fund has a fund balance of \$1,534,596 at November 30, 2008, which is a net increase of \$3,288 from 2007.

Budgetary Highlights

Operating tax revenues did increase during 2008, however, state aide and interest revenues declined from previous years.

The budget for the year did include an allocation to complete the acquisition of the new bookmobile and for the addition of the coffee shop. The bookmobile was placed in service early in 2008. The coffee shop is in process and construction began in January of 2009.

Capital Asset and Debt Administration

As of November 30, 2008, Ypsilanti District Library had \$17,889,254 invested in a broad range of capital assets, including building, collections, furniture, and equipment.

For the year ended November 30, 2008, Ypsilanti District Library purchased books at a cost of \$559,874 and other capital assets at a cost of \$308,944.

All payments for interest and principal have been made in accordance with the bond amortization schedule.

Economic Factors and Next Year's Budgets and Rates

The Ypsilanti District Library's budget for the fiscal year ending November 30, 2009 has included a conservative projection for tax revenues. The future tax value of our major industrial properties is uncertain. There are appeals under review that will result in significant tax refunds and the 2009 budget has included expected refunds as high as \$260,000. Local tax authority assessors are indicating that the tax base will decline with estimates as high as a 10% decrease.

Penal fines and state aid have been budgeted with no increases expected. The future of these revenue categories depend upon legislative action. Revenue sharing funds are not provided for libraries in the future and the expected return from interest rates is the lowest in recent history.

Operating costs were increased to reflect expected inflation for non-personnel cost. Labor costs were projected to increase in accordance with the terms of the labor contract which extends into 2010.

Notable Progress

Significant progress has been made on the implementation of Ypsilanti District Library's Strategic Plan adopted for 2007—2010:

- Café/Coffee Shop at Ypsilanti District Library, Whittaker Road.
The Ypsilanti District Library Board awarded a construction contract for a full-service coffee shop to be in operation during fiscal 2009.
- Superior Township Service
The Ypsilanti District Library expanded the hours of library service at a township owned facility in Superior Township. Library usage soared to 18,562 in 2008.
- Bookmobile
The Ypsilanti District Library's new bookmobile "The Navigator" arrived in January 2008. The Navigator circulated 22,554 items and made 1,344 stops in 2008.

- Marketing plan
The Ypsilanti District Library Board approved a marketing plan focused on engaging under served populations in the library's district.
- Technology
The Ypsilanti District Library developed an Intranet for YDL staff use.

Key Performance Indicators

- Items borrowed: 856,475 (approximately 16 % increase over the year ended November 30, 2007)
- Program attendance: 41,024 (nearly 30% increase over year ended November 30, 2007)
- Reference questions answered: 164,218
- Percentage of population with library cards: 83 %

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and provide accountability for the resources entrusted to the trustees and the management of Ypsilanti District Library. If you have questions about this report, or need additional information, contact the Director, Jill Morey, at (734) 879-1300.

BASIC FINANCIAL STATEMENTS

YPSILANTI DISTRICT LIBRARY
Governmental Funds Balance Sheet/Statement of Net Assets
November 30, 2008

	Major Funds					Statement of Net Assets
	General	Debt Service	Capital Projects	Total	Adjustments	
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 3,567,885	\$ 1,531,212	\$ -	\$ 5,099,097	\$ -	\$ 5,099,097
Accounts receivable	73,121	-	-	73,121	-	73,121
Taxes receivable	105,825	151,474	-	257,299	-	257,299
Due from other funds	-	2,762	900,000	902,762	(902,762)	-
Capital assets						
Assets not being depreciated	-	-	-	-	1,030,696	1,030,696
Assets being depreciated	-	-	-	-	16,858,558	16,858,558
<u>TOTAL ASSETS</u>	<u>\$ 3,746,831</u>	<u>\$ 1,685,448</u>	<u>\$ 900,000</u>	<u>\$ 6,332,279</u>	<u>16,986,492</u>	<u>23,318,771</u>
Liabilities						
Accounts payable	\$ 32,522	\$ -	\$ -	\$ 32,522	38,808	71,330
Accrued liabilities	47,697	-	-	47,697	-	47,697
Due to other funds	902,762	-	-	902,762	(902,762)	-
Deferred revenue	104,578	150,852	-	255,430	(255,430)	-
Long-term liabilities						
Due within one year	-	-	-	-	1,010,134	1,010,134
Due after one year	-	-	-	-	10,575,000	10,575,000
Total liabilities	<u>1,087,559</u>	<u>150,852</u>	<u>-</u>	<u>1,238,411</u>	<u>10,465,750</u>	<u>11,704,161</u>
Fund balances/Net assets						
Fund balance - reserved:						
Memorials	6,394	-	-	6,394	(6,394)	-
Fund balance - unreserved:						
Designated for working capital	1,000,000	-	-	1,000,000	(1,000,000)	-
Designated for improvements	1,204,269	-	-	1,204,269	(1,204,269)	-
Undesignated	448,609	1,534,596	900,000	2,883,205	(2,883,205)	-
Total fund balances	<u>2,659,272</u>	<u>1,534,596</u>	<u>900,000</u>	<u>5,093,868</u>	<u>(5,093,868)</u>	<u>-</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 3,746,831</u>	<u>\$ 1,685,448</u>	<u>\$ 900,000</u>	<u>\$ 6,332,279</u>		
Net assets:						
Investment in capital assets, net of related debt					6,459,377	6,459,377
Restricted for debt service					1,534,596	1,534,596
Restricted for other purposes					6,394	6,394
Unrestricted					3,614,243	3,614,243
Total net assets					<u>\$ 11,614,610</u>	<u>\$ 11,614,610</u>

The accompanying notes are an integral part of these financial statements.

YPSILANTI DISTRICT LIBRARY
Reconciliation of Governmental Fund Balances
to Statement of Net Assets
November 30, 2008

Fund balances - total governmental funds	\$ 5,093,868
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	26,106,581
Deduct: accumulated depreciation	(8,217,327)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	255,430
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Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable and other long-term debt	(11,429,877)
Deduct: accrued interest on long-term liabilities	(38,808)
Deduct: compensated absences	(155,257)

Net assets of governmental activities	<u>\$ 11,614,610</u>
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The accompanying notes are an integral part of these financial statements.

YPSILANTI DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balances and Statement of Activities
Governmental Funds
For the Year Ended November 30, 2008

	Major Funds					Statement of Net Assets
	General	Debt Service	Capital Projects	Total	Adjustments	
Revenue						
Property taxes	\$ 3,810,111	\$ 1,267,988	\$ -	\$ 5,078,099	\$ 94,272	\$ 5,172,371
Penal fines	164,352	-	-	164,352	-	164,352
State revenue sharing	11,622	-	-	11,622	-	11,622
State aid	52,114	-	-	52,114	-	52,114
Miscellaneous	109,760	-	-	109,760	-	109,760
Interest income	114,168	30,184	-	144,352	-	144,352
Donations	12,575	-	-	12,575	-	12,575
Friends of the Library gift	33,417	-	-	33,417	-	33,417
 Total revenue	 4,308,119	 1,298,172	 -	 5,606,291	 94,272	 5,700,563
Expenditures/expenses						
Current:						
Administration	2,051,862	-	-	2,051,862	(233,488)	1,818,374
Michigan Avenue	543,815	-	-	543,815	81,556	625,371
Bookmobile	145,337	-	-	145,337	40,813	186,150
Superior Township	101,770	-	-	101,770	(15,469)	86,301
Whittaker Road	1,364,860	-	-	1,364,860	464,364	1,829,224
Expenditures from donations revenue	32,488	-	-	32,488	-	32,488
Debt service:						
Principal	-	810,000	-	810,000	(810,000)	-
Interest	-	484,884	-	484,884	(3,038)	481,846
 Total expenditures/expenses	 4,240,132	 1,294,884	 -	 5,535,016	 (475,262)	 5,059,754
 Revenue over (under) expenditures/expenses	 67,987	 3,288	 -	 71,275	 (71,275)	 -
Other financing sources (uses)						
Transfers in	-	-	900,000	900,000	(900,000)	-
Transfers out	(900,000)	-	-	(900,000)	900,000	-
 Total other financing sources (uses)	 (900,000)	 -	 900,000	 -	 -	 -
 Net change in fund balances	 (832,013)	 3,288	 900,000	 71,275	 (71,275)	 -
 Change in net assets	 -	 -	 -	 -	 640,809	 640,809
 Fund balance/net assets, beginning of year	 3,491,285	 1,531,308	 -	 5,022,593	 5,951,208	 10,973,801
 Fund balance/net assets, end of year	 <u>\$ 2,659,272</u>	 <u>\$ 1,534,596</u>	 <u>\$ 900,000</u>	 <u>\$ 5,093,868</u>	 <u>\$ 6,520,742</u>	 <u>\$ 11,614,610</u>

The accompanying notes are an integral part of these financial statements.

YPSILANTI DISTRICT LIBRARY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended November 30, 2008

Net change in fund balances - total governmental funds	\$	71,275
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		795,615
Deduct: depreciation expense		(1,145,315)

Property tax revenues are recorded as additions to net assets when earned; They are not recorded in the funds until collected or collectible within 60 days of year end.

Add: increase in deferred long-term receivables		94,272
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are capitalized and amortized on the statement of activities.

Add: principal payments on long-term liabilities		850,519
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest on bonds		3,038
Deduct: increase in the accrual for compensated absences		(28,595)

Change in net assets of governmental activities	\$	640,809
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The accompanying notes are an integral part of these financial statements.

YPSILANTI DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended November 30, 2008

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenue				
Property taxes	\$ 3,674,275	\$ 3,807,438	\$ 3,810,111	\$ 2,673
Penal fines	155,000	164,352	164,352	-
State revenue sharing	-	-	11,622	11,622
State aid	70,000	52,114	52,114	-
Miscellaneous	99,000	105,600	109,760	4,160
Interest income	160,105	111,785	114,168	2,383
Donations	1,000	1,165	12,575	11,410
Friends of the Library gift	-	-	33,417	33,417
Total revenue	4,159,380	4,242,454	4,308,119	65,665
Expenditures				
Current:				
Administration	2,234,362	2,131,076	2,051,862	79,214
Michigan Avenue	533,021	539,590	543,815	(4,225)
Bookmobile	149,632	146,200	145,337	863
Superior Township	123,329	100,850	101,770	(920)
Whittaker Road	1,328,328	1,325,000	1,364,860	(39,860)
Expenditures from donations revenue	-	-	32,488	(32,488)
Total expenditures	4,368,672	4,242,716	4,240,132	2,584
Revenue over (under) expenditures	(209,292)	(262)	67,987	68,249
Other financing sources				
Transfers out	-	(900,000)	(900,000)	-
Net change in fund balances	(209,292)	(900,262)	(832,013)	68,249
Fund balance, beginning of year	3,491,285	3,491,285	3,491,285	-
Fund balance, end of year	\$ 3,281,993	\$ 2,591,023	\$ 2,659,272	\$ 68,249

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Ypsilanti District Library (the “Library”) began operations as a district library in May 1983 when it began receiving tax revenue from Ypsilanti Township and the City of Ypsilanti.

The Library has implemented the Governmental Accounting Standards Board’s Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2008.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund is used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

The capital projects fund was set up to account for any future capital expenditures made by the Library.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

D. Assets, liabilities and equity

1. Cash and cash equivalents/investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are recorded at fair value, based on quoted market prices.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Furniture and fixtures	10-20
Vehicles	7
Computer and office equipment	3-5
Collections	5

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

4. Compensated absences

Compensated absences represent the estimated liability to be paid to employees under the Library's compensated absences policy. It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

5. Long-term obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Property taxes

The Library district's borders encompass the City of Ypsilanti and Ypsilanti and Superior Townships, and property taxes are assessed as of December 31. The Library's operating and debt taxes are billed to the City of Ypsilanti taxpayers on July 1. The Library's operating taxes only are billed to Superior Township on July 1. The Library's operating taxes are billed to Ypsilanti Township taxpayers on December 1 of the following fiscal year, and the debt taxes are billed to Ypsilanti Township taxpayers on July 1 of the following fiscal year. The Delinquent Tax Revolving Fund of Washtenaw County advances delinquent real taxes to the Library on an annual basis.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the General Fund is adopted on a total basis for revenue and a departmental basis for expenditures; expenditures at this level in excess of budgeted amounts are a violation of Michigan law. Variances with the Final Budget are shown on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	<u>\$ 5,099,097</u>
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These balances are disclosed in the notes as follows:

Petty cash	\$ 230
Bank deposits (checking and savings accounts)	3,840,414
Investments	<u>1,258,453</u>
	<u>\$ 5,099,097</u>

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, banker acceptances and mutual funds composed of otherwise legal investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year -end, the District had the following investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Governmental MMF	n/a	\$ 1,241,451	S&P – Aaa
American Century - growth stock fund	n/a	<u>17,002</u>	n/a
		<u>\$ 1,258,453</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates of investments are shown in the investment schedule above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$1,672,264 of the Library's bank balance of \$3,951,919 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. Although uninsured and unregistered, the Library's investments at November 30, 2008 are not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

B. Capital assets

Capital asset activity for the year ended November 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,003,899	\$ -	\$ -	\$ 1,003,899
Construction in progress	100,000	176,242	249,445	26,797
Total capital assets not being depreciated	<u>1,103,899</u>	<u>176,242</u>	<u>249,445</u>	<u>1,030,696</u>
Capital assets being depreciated				
Buildings	16,420,504	30,282	-	16,450,786
Furniture and fixtures	1,807,544	12,966	-	1,820,510
Vehicles	180,458	249,445	-	429,903
Computer and office equipment	356,138	16,251	-	372,389
Site improvements	960,957	-	-	960,957
Collections - Library books, CDs, and audio/visual	4,481,466	559,874	-	5,041,340
Total capital assets being depreciated	<u>24,207,067</u>	<u>868,818</u>	<u>-</u>	<u>25,075,885</u>
Less accumulated depreciation for:				
Buildings	2,635,404	408,435	-	3,043,839
Furniture and fixtures	709,782	145,287	-	855,069
Vehicles	137,823	43,597	-	181,420
Computer and office equipment	161,004	60,187	-	221,191
Site improvements	61,683	48,048	-	109,731
Collections - Library books, CDs, and audio/visual	3,366,316	439,761	-	3,806,077
Total accumulated depreciation	<u>7,072,012</u>	<u>1,145,315</u>	<u>-</u>	<u>8,217,327</u>
Total capital assets being depreciated, net	<u>17,135,055</u>	<u>(276,497)</u>	<u>-</u>	<u>16,858,558</u>
Governmental activities capital assets, net	<u>\$ 18,238,954</u>	<u>\$ (100,255)</u>	<u>\$ 249,445</u>	<u>\$ 17,889,254</u>

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

C. Deferred revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded in the governmental activities consisted entirely of unavailable property taxes.

D. Leases

The Library has entered into two lease agreements as lessee for financing the purchase of copy machines and computers. During the year ended November 30, 2008, the lease for the computers had been paid off. The lease agreement for the copy machines qualifies as a capital lease for accounting purposes and, therefore has been recorded at the present value of the future minimum lease payments as of the inception dates. The future minimum lease payments and the net present value are as follows:

<u>Year Ended</u> <u>November 30,</u>	<u>Amount</u>
2009	\$ 5,651
Less amount representing interest	<u>(774)</u>
Present value	<u>\$ 4,877</u>

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

E. Long-term debt

The following is a summary of long-term debt outstanding of the Library for the year ended November 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation					
bonds	\$ 12,235,000	\$ -	\$ 810,000	\$ 11,425,000	\$ 850,000
Capital lease obligations	45,396	-	40,519	4,877	4,877
Compensated absences	126,662	28,595	-	155,257	155,257
	<u>\$ 12,407,058</u>	<u>\$ 28,595</u>	<u>\$ 850,519</u>	<u>\$ 11,585,134</u>	<u>\$ 1,010,134</u>

Bonds payable at November 30, 2008, are comprised of the following issues:

General Obligation Bonds:

\$3,320,000 unrefunded portion of 1999 Library
Bonds, due in annual installments of \$850,000 to
\$890,000 through the year 2010; interest at 4.50% \$ 1,740,000

\$9,685,000 2006 Refunding Bonds, due in annual
installments of \$910,000 to \$1,255,000 through the
year 2019; interest at 4.00% 9,685,000

\$ 11,425,000

In prior years, the Library defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets. The balance of defeased bonds outstanding as of November 30, 2008 was \$10,370,000, which represents amounts placed in escrow as part of this refunding.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

The annual requirements to service the bonds outstanding as of November 30, 2008, are as follows:

<u>Year Ended November 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 850,000	\$ 446,575	\$ 1,296,575
2010	890,000	407,425	1,297,425
2011	910,000	369,200	1,279,200
2012	950,000	332,000	1,282,000
2013	990,000	293,200	1,283,200
2014-2018	5,580,000	826,600	6,406,600
2019	<u>1,255,000</u>	<u>25,100</u>	<u>1,280,100</u>
Total	<u>\$ 11,425,000</u>	<u>\$ 2,700,100</u>	<u>\$ 14,125,100</u>

The capital lease obligations are explained Note III-D.

Compensated absences represent the estimated liability to be paid employees under the Library's vacation and sick pay policy. Under the vacation policy, employees earn vacation time based on time of service with the Library. Compensated absences are generally liquidated by the General Fund.

F. Receivables and Payables and Inter-fund transfers

The Library often has interfund balances between its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At November 30, 2008, there were receivables of \$2,762 and \$900,000, respectively, in the debt service fund and capital projects fund from the general fund.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. During the year ended November 30, 2008, there was a transfer made from the general fund to the capital projects fund in the amount of \$900,000.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Reservation of Fund Balance/Restricted Net assets

The Library has received donations that have been restricted for expenditures relating to the development of the Library's collection. Fund balance has been reserved in an amount equal to the donation less any expenditures. These donations along with debt service fund balance meet the criteria that require the amounts to be restricted on the statement of net assets.

B. Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

C. Defined Contribution Retirement Plan

The Library provides a pension plan to all of its employees who are over 21 years of age and earn more than \$450 annually through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. As established by the Board, the Library contributes 5 percent of employees' gross earnings and employees may contribute up to an additional 10 percent of earnings. The Library's contributions for each employee (plus interest allocated to the employee's account) are fully vested after the first deposit. In accordance with these requirements, the Library contributed \$67,589 during the year, and employees contributed \$78,968.

YPSILANTI DISTRICT LIBRARY

Notes to the Financial Statements

D. Contingency

A large manufacturer in Ypsilanti Township has appealed its tax assessment for the past four years to the Michigan Tax Tribunal. As of November 30, 2008, the exact amount of any payback of taxes previously collected as a result of this appeal is unknown.

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SUPPLEMENTARY INFORMATION

YPSILANTI DISTRICT LIBRARY
Schedule of Operating Expenditures - General Fund
For the Year Ended November 30, 2008

	Salary and Benefits	Library Materials	Contractual	Automation and Capital Outlay	Other Designated Expenses
Administration	\$ 1,280,167	\$ -	\$ 105,894	\$ 423,060	\$ 242,741
Michigan Avenue	311,062	171,846	11,365	-	49,542
Bookmobile	117,229	11,404	-	-	16,704
Superior Township	80,758	17,188	-	-	3,824
Whittaker	735,725	377,658	43,358	-	208,119
Expenditures from donations revenue	-	32,488	-	-	-
Total	\$ 2,524,941	\$ 610,584	\$ 160,617	\$ 423,060	\$ 520,930

Total	Budget	Under (Over) Budget	Percent of Total
\$ 2,051,862	\$ 2,131,076	\$ 79,214	48%
543,815	539,590	(4,225)	13%
145,337	146,200	863	3%
101,770	100,850	(920)	2%
1,364,860	1,325,000	(39,860)	32%
32,488	-	(32,488)	1%
\$ 4,240,132	\$ 4,242,716	\$ 2,584	100%

February 10, 2009

To the Board of Directors of
Ypsilanti District Library

We have audited the financial statements of the *Ypsilanti District Library* (the “Library”) for the year ended November 30, 2008, and have issued our report thereon dated February 10, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 6, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the *Library*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 5, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Library's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Ypsilanti District Library* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in dark ink and is positioned below the "Very truly yours," text.

Ypsilanti District Library

Comments and Recommendations

For the Year Ended November 30, 2008

In planning and performing our audit of the financial statements of the Ypsilanti District Library (the "Library") as of and for the year ended November 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Ypsilanti District Library

Comments and Recommendations (Continued)

For the Year Ended November 30, 2008

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Library's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Library lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Library's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Library's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. During our audit, we noted an internal control process that could be enhanced as follows:

- The payroll register is presently not reviewed by a management level person after the payroll checks and reports are received from Paychex. We recommend that the Director perform this "final review" before distributing the checks and direct deposit notifications, and to document this procedure by initialing and dating.

Ypsilanti District Library

Comments and Recommendations (Concluded)

For the Year Ended November 30, 2008

Capital Asset Addition and Deletion Review

As commented on in the prior year, we noted that capital asset records are not reviewed on a periodic basis by various departments in order to verify the existence of such assets. In order to ensure that all capital asset additions and deletions are recorded, the detail capital asset records should be inventoried every 3 or 4 years, or on a schedule that is proper for the Library. We are pleased to report that the Library is currently in the process of taking a physical inventory of all capital assets. Additionally, the Library should adopt a policy for periodic inventory procedures.

Computer access controls

We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Library institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of the Library, once every six months would be adequate. The Library may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

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